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## GENERAL INFORMATION

*The purpose of the Community Reinvestment Act of 1977 ("CRA"), 12 U.S.C. 2901, as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. CRA requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its communities. The agency considers the institution's record of performance when deciding whether to approve any applications submitted by the institution.*

*This document is an evaluation of the CRA performance of M&I Merchants Bank, Rhinelander, Wisconsin, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of December 1, 1997. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

### ***Basis for the Rating***

*The assessment of the institution's record takes into account its financial capacity and size; legal impediments; and local economic conditions and demographics, including the competitive environment in which the institution operates. Assessing the institution's CRA performance is a process that does not rely on absolute standards. Institutions are neither required to adopt specific activities, or to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its assessment areas. In that light, this evaluation is based on a review of the institution's loans, investments, and services, as detailed in this evaluation.*

**INSTITUTION'S CRA RATING:** This institution is rated "Satisfactory."

The CRA evaluation revealed several factors that support rating the bank's CRA performance satisfactory.

First, the bank's performance under the Lending Test is rated high satisfactory for the following reasons:

- The bank's quarterly net loan-to-deposit ratio is high, and the volume of lending reflects good responsiveness to community credit needs.
- A substantial majority of the bank's residential real estate, small business, and small farm loans originated during 1996 and through September 1997 were to people and businesses in its assessment area.
- The geographic distribution of the bank's loan originations reviewed is adequate and shows penetration in geographies of different income levels throughout the assessment area.
- The bank originates loans to borrowers of different incomes and to businesses of various sizes and has adequate penetration of all income levels.
- The bank has an adequate record of serving low-income people and a good record of serving small businesses.

Although the bank did not report any qualified community development loans, it offers many innovative

and flexible loan products that benefit its assessment area's low- and moderate-income people and small businesses.

Second, the bank's performance under the Investment Test is rated high satisfactory. This rating is based on the bank's qualified investment activity in light of the limited opportunities for the bank to invest in qualified investments in its assessment area. A review of the bank's investment portfolio shows that the bank owns two qualified investments comprising a significant percentage of its municipal securities portfolio. These investments are to an area organization that provides housing to low- and moderate-income people. In addition, the bank has provided donations to nonprofit economic development organizations and government agencies that seek to revitalize low- and moderate-income areas or provide assistance to low- and moderate-income individuals in the assessments area. The bank's qualified investments and grants represent good responsiveness to community development and credit needs in the bank's assessment area.

Finally, the bank's performance under the Service Test is rated high satisfactory. At the time of the evaluation, the bank operated three branches and provided access to its services through a variety of alternative delivery systems. The bank's services are accessible to residents throughout the assessment area and do not vary in a way that inconveniences low- and moderate-income people or areas. One of the bank's branches is located on the Lac du Flambeau Indian Reservation ("Reservation") in a low-income BNA. The bank branch in Antigo is located in a moderate-income BNA. In addition, bank directors, officers, and staff provide an adequate level of qualified community development services throughout the bank's assessment area.

*The following table indicates the performance level of M&I Merchants Bank, Rhinelander, Wisconsin, with respect to the lending, investment, and service tests.*

PERFORMANCE LEVELS	M&I MERCHANTS BANK RHINELANDER, WISCONSIN PERFORMANCE TESTS		
	LENDING TEST*	INVESTMENT TEST	SERVICE TEST
Outstanding			
High Satisfactory	X	X	X
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			
*The lending test is weighted more heavily than the investment and service tests when deriving the overall CRA rating.			

## DESCRIPTION OF INSTITUTION

M&I Merchants Bank is able to fulfill area credit needs effectively. The previous CRA evaluation, conducted as of May 23, 1994, by the Federal Deposit Insurance Corporation, revealed that the bank's performance in meeting community credit needs was outstanding. The bank is subject to large bank CRA examination procedures because its parent holding company has more than \$1 billion in assets.

The bank joined the Federal Reserve System ("System") effective October 1, 1995 ("membership date").<sup>1</sup> At that time, the bank operated six offices: the main office and a branch office in Rhinelander and branch offices in Antigo, Woodruff, Lake Tomahawk, and Lac du Flambeau, Wisconsin. On June 30, 1997, the System's Board of Governors approved an application by Marshall & Ilsley Corporation ("Corporation") and M&I Marshall & Ilsley Bank, Milwaukee, Wisconsin, to merge with Security Capital Corporation and Security Bank, ssb, Milwaukee. As a result, M&I Merchants Bank acquired and consolidated Security Bank's branch in Rhinelander with its main office. Pursuant to the approval of this application, Corporation committed to divest certain branches in the Rhinelander banking market. In that regard, effective September 19, 1997, M&I Merchants Bank sold the Lake Tomahawk and Rhinelander branch offices.

As of the evaluation date, the bank operated three full-service offices, five automated teller machines ("ATMs"), and one limited-service facility in three northeastern Wisconsin counties. Four of the ATMs are cash dispensing only. Based on the location of its offices and its lending territories, the bank has defined one nonmetropolitan assessment area for purposes of CRA.

The bank's main office is located at 7 North Brown Street in the downtown district of Rhinelander, Wisconsin. The bank's remaining three branches are located in Antigo, Lac du Flambeau, and Woodruff. The bank's main office and branches are located in the following geographies:

GEOGRAPHICAL LOCATION AND INCOME CLASSIFICATIONS					
Office	Geography*	Low-Income	Moderate-Income	Middle-Income	Upper-Income
Main Office	Oneida County BNA 9714			X	
Lac du Flambeau	Vilas County BNA 9509	X			
Woodruff	Oneida County BNA 9708			X	
Antigo	Langlade County BNA 9606		X		
*A geography is a census tract ("CT") or block numbering area ("BNA") as delineated by the U.S. Bureau of the Census.					

As the preceding chart indicates, the bank operated one office in a low-income geography, one office in a moderate-income geography, and two offices in middle-income geographies as of the evaluation date. As mentioned previously, the bank also operates five ATMs; four ATMs are located in various parts of Rhinelander and one is in Woodruff. All of the ATMs are located in middle-income BNAs.

<sup>1</sup>Unless otherwise noted, this evaluation reflects the bank's CRA performance since membership date.

The bank's size does not restrict its ability to meet the credit needs of the residents, businesses, and farms in its assessment area. According to the September 30, 1997, Report of Condition ("ROC"), the bank had total assets of approximately \$243 million.

The September 30, 1997, ROC indicates that the bank is primarily a commercial lender; approximately 47% of its portfolio is commercial loans. The bank is also a fairly active consumer real estate lender with 41% of its loan portfolio in consumer real estate loans. The balance of the bank's loan portfolio is 7% consumer loans and approximately 5% agricultural loans. Because of the bank's northern location, its loan portfolio contains fewer agricultural loans than other types of loans. The composition of the bank's loan portfolio reflects the level of demand for specific types of credit by residents, businesses, and farms in the assessment area.

The bank offers a variety of loan products to fulfill the credit needs of residents, businesses, and farms within its assessment area. It extends conventional consumer, residential real estate, mobile home, commercial, and agricultural loans. The bank's residential real estate loan products include adjustable rate mortgages, construction loans, fixed-rate loans with 15- to 30-year maturities, and balloon loans with varying maturities. The bank also offers consumer closed-end loans for a variety of purposes. Its open-end products include personal reserve, credit card, and home equity lines of credit. It also extends loans to municipalities and issues letters of credit for local businesses.

In addition to conventional loan products, the bank participates in numerous government-sponsored loan programs. For residential real estate loan borrowers, it offers Department of Veterans Affairs ("VA"), Department of Housing and Urban Development ("HUD") Section 184, and Wisconsin Housing and Economic Development Authority ("WHEDA") loans. For commercial borrowers, the bank offers Small Business Administration ("SBA"), WHEDA, and Wisconsin Business Development Finance Corporation ("WBDFC") loans. It participates in the following WHEDA commercial loan programs: Linked Deposit Loan ("LiDL"), Tourism Fund ("TFP"), and Targeted Area ("TAP"). In addition, pursuant to the Petroleum Environmental Cleanup Act ("PECFA"), the bank offers loans to municipalities and businesses for environmental cleanup projects. Finally, it actively extends government-subsidized student loans.

## **DESCRIPTION OF M&I MERCHANTS BANK, RHINELANDER'S ASSESSMENT AREA**

The bank has defined its assessment area as Oneida and Langlade counties, Wisconsin, and five BNAs located in southwestern Vilas County, Wisconsin. The assessment area is in northeastern Wisconsin, and it is primarily rural, with few communities of any size. The Vilas County BNAs are located approximately five miles south of Wisconsin's border with Michigan's Upper Peninsula. Oneida County is south of Vilas County and comprises the central section of the assessment area. Langlade County is southeast of Oneida County. In total, the assessment area encompasses 27 BNAs that have a total population of 57,662, according to 1990 U.S. Census data.

The assessment area's population has increased since the last census. Since 1990, the population growth rates for Vilas and Oneida counties have exceeded the statewide average. Between 1990 and 1996, Vilas County's population increased from 17,707 to 18,874, representing a 6.6% change. Oneida County's population increased by 6.8% during the same period. According to Wisconsin Extension Service demographic data, Langlade County's estimated 1997 population was 20,459, a 4.89% increase from its 1990 population of 19,505. The state's average population increase was 5.1% during the first six years of the decade.

Examiners contacted several community development, government, business, and tribal representatives located throughout the bank's assessment area as part of the bank's CRA evaluation. The community contacts provided information regarding business, agricultural, and tribal economic conditions and

demographic characteristics. Examiners used information from these contacts and bank management to evaluate the bank's CRA performance.

Rhineland is the county seat of Oneida County. According to 1990 U.S. Census data, Rhineland's population was 7,427; its 1997 estimated population is 7,758. Bank management and community contacts attribute some of the population growth to the increased work force needs of Rhineland's major employers, including several paper mills and light manufacturing companies. They ascribe the balance of the population growth to the scores of people who are attracted by the aesthetics of the area and relocate there. Oneida and Vilas counties are well known for their numerous clear lakes and vast tracts of forested land. Vacation homes and cabins abound in the area, and residents and visitors enjoy year-round fishing, hunting in the fall, and skiing and snowmobiling in the winter. The local economy is generally characterized as good and growing. Oneida County's annual seasonally adjusted unemployment rate is 4.4%; however, contacts indicate that many people are underemployed. According to bank management and a local economic development official, Oneida County is currently experiencing a labor shortage. Consequently, business retention concerns have taken precedence over business growth.

In Rhineland, one new firm recently created 40 jobs with a potential to grow to 120 employees in a few years. According to statistics compiled as of February 1997 by the Wisconsin Department of Workforce Development, Oneida and Vilas counties have experienced steady annual employment growth adding nearly 6,000 workers since 1992 (a 25% increase). The contact also indicated that this growth in numbers of workers has put a strain on the supply of available housing, especially in the Rhineland area, which further restricts new business growth. New homes in the area are built one at a time instead of building subdivisions with several houses being built concurrently. Another complication of this job-shortage problem is the fact that Oneida and Vilas counties are very popular as summer tourist areas so many available jobs are seasonal and pay rather low wages. Labor statistics from the Wausau Job Service report as of March 1997 for Oneida County indicated that service, retail, and construction businesses employ approximately 57% of the workers in Oneida County. This figure represents more than half the county's employment base, and the effect of seasonal hiring within these three business sectors is significant. Combined demand for labor fluctuates from 9,000 to 11,000 workers between the winter and summer seasons.

Although tourism is a major sector of Oneida and Vilas counties' economies, Rhineland has more of a manufacturing focus than the other sections of the bank's assessment area. According to Wisconsin Public Service Corporation 1995 labor statistics, of the 18,600 employed residents of Oneida County, 13,550, or 73%, have nonmanufacturing jobs. Almost all of the manufacturing jobs are centered in Rhineland. Other Oneida County towns in the assessment area include Woodruff-Minocqua, Hazelhurst, Lake Tomahawk, McNaughton, Starks, and Three Lakes. Woodruff-Minocqua's combined 1990 population was 5,120. According to Wisconsin Public Service Corporation figures, its combined 1995 population was 5,489. Vilas County communities in the assessment area include Lac du Flambeau, Arbor Vitae, and St. Germain.

Langlade County, on the other hand, is primarily agricultural in nature and is known for its potato farms. As previously stated, Langlade County's population has increased by 4.89% since the 1990 census. Antigo is located approximately 47 miles southeast of Rhineland and is the county seat of Langlade County. It is the largest town in the county and is home to one of the bank's full-service branches. According to 1990 U.S. Census data, Antigo's population was 8,284; its 1997 estimated population is 8,591, a 3.71% increase. According to bank management and a community contact familiar with the economic and demographic characteristics of Langlade County, the local economic condition is stable with some growth in new small manufacturing firms and some expansion in existing firms. The unemployment rate is low and continued growth is expected to come from additional expansion by existing manufacturers. Housing availability is good with many new homes being built in new subdivisions around the city. Sufficient rental housing is also available. According to the contact,

ironically, the biggest economic development challenge the Antigo area is facing right now is the management of growth. They are struggling with how to limit growth to a manageable pace and set growth priorities to the community's optimum advantage. Other Langlade County towns in the assessment area include Elcho, Parrish, Neva, Polar, and White Lake.

According to the county business patterns compiled by the Bureau of Labor Statistics, employment patterns in the assessment area had shown some changes. Between 1991 and 1995, the number of employees in the labor force has increased by 10%. The numbers of employees involved in the manufacturing and construction industries has increased by 12.3% and 22%, respectively. Other business sectors showing increases in the number of people employed were transportation and public utilities, increasing by 14.4%, and the retail sector, which increased by 10.7%. Conversely, farming employment decreased by 2.8%.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank's assessment area is not located in a metropolitan statistical area, the categorization of a borrower or area's income is determined relative to the statewide nonmetropolitan median family income. Pursuant to the CRA's definitions, low-income individuals have incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines middle-income individuals as people with incomes of at least 80% but less than 120% of the statewide nonmetropolitan median family income. Individuals with incomes of 120% or more than the statewide nonmetropolitan median family income are classified as upper-income persons. According to the 1997 updated data, the statewide nonmetropolitan median family income in Wisconsin is \$39,600; this figure is used to classify income levels of borrowers. BNAs are classified using similar categories based on the level of the median family income in the geography compared with the 1990 statewide nonmetropolitan median family income of \$30,290.

According to the 1990 U.S. Census data, the assessment area's median family income is \$26,382, approximately 87% of the statewide nonmetropolitan median family income. The median household income for the assessment area is \$22,327. There are approximately 16,462 families and 22,806 households within the assessment area. Approximately 9.3% of the families and 12.1% of the households have incomes below the poverty level. The percentages of such families and households in the assessment area are slightly higher than the nonmetropolitan statewide percentages of 8% and 11%, respectively.

The distribution of family and household income for the assessment area is summarized in the following table.

<b>ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL</b>				
<b>Unit of Measure</b>	<b>Low Income</b>	<b>Moderate Income</b>	<b>Middle Income</b>	<b>Upper Income</b>
Families Compared to Median Family Income	23%	22%	25%	30%
Households Compared to Median Household Income	27%	19%	21%	33%

The percentage of families and households living under the poverty level is 9.3% and 12.1%, respectively. These levels are slightly higher than corresponding levels for nonmetropolitan areas in the state.

As previously discussed, the bank's assessment area includes 27 BNAs in three counties. The following table describes the assessment area's population and income distribution by BNA.



INCOME DESIGNATION AND POPULATION DISTRIBUTION BY BNA		
County and BNAs	Income Designation	Percentage of Assessment Area Population
Vilas County		
9507	Middle	.8%
<b>9509</b>	<b>Low</b>	<b>3.2%</b>
<b>9510</b>	<b>Moderate</b>	<b>1.7%</b>
9511	Middle	3.1%
<b>9512</b>	<b>Moderate</b>	<b>2.4%</b>
Langlade County		
<b>9601</b>	<b>Moderate</b>	<b>2.2%</b>
<b>9602</b>	<b>Moderate</b>	<b>2.1%</b>
9603	Middle	4.8%
9604	Middle	6.0%
<b>9605</b>	<b>Moderate</b>	<b>3.2%</b>
<b>9606</b>	<b>Moderate</b>	<b>7.8%</b>
9607	Middle	7.7%
Oneida County		
9701	Middle	2.0%
9702	Middle	4.5%
9703	Middle	1.6%
9704	Middle	5.3%
9705	Middle	3.0%
9706	Middle	6.0%
9707	Middle	2.3%
9708	Middle	3.3%
9709	Middle	3.1%
<b>9710</b>	<b>Moderate</b>	<b>1.6%</b>
9711	Middle	2.2%
9712	Middle	2.4%
9713	Middle	3.2%
9714	Middle	7.0%
9715	Middle	7.4%

As the table illustrates, the bank's assessment area has only one low-income area, which represents 3.2% of the assessment area's population, and seven moderate-income areas, which represent 21% of the assessment area's population. The median family income in BNA 9509 is \$14,735, according to census data. The median family income is between \$19,728 and \$24,206 in the assessment area's moderate-income BNAs. Households and families are concentrated in the middle-income BNAs which include 74.8% of the households and 75.6% of the families. The low-income BNA has 2.7% of the households and 3.1% of the families, while the moderate-income BNAs are home to 25.2% of the households and 21.3% of the families.

The bank's assessment area includes most of the Reservation, which is located in BNAs 9509 and 9510. The tribal headquarters is in Lac du Flambeau, which is approximately 15 miles from Woodruff-Minocqua, Wisconsin. The bank operates a limited-service facility in the tribal grocery store in Lac du Flambeau. While this branch is essentially a paying and receiving station, customers can and do submit applications for all types of loans. However, any loans originated from the Lac du Flambeau office are booked and processed through the branch office in Woodruff. According to community contacts, most Reservation residents shop and obtain financial services in Woodruff-Minocqua.

According to a tribal planning official contacted as part of this CRA evaluation, the Reservation encompasses 144 square miles; the area is heavily forested and has numerous lakes. Approximately one-third of the Reservation is water, one-third is Indian land, and one-third is private land. The tribe has 2,400 members, 1,400 of whom live on the Reservation. The residents of BNA 9509 are not affluent. As discussed, according to the 1990 U.S. Census data, the BNA's median family income is \$14,735, approximately 49% of the statewide nonmetropolitan median family income. The BNA's median household income is \$14,337. The data also show that of the 1,525 housing units in this BNA, 20% are owner occupied, 20% are rental units, and 60% are vacant. The tribe employs approximately 800 people and is the largest employer on the Reservation. The tribe owns the Lake of the Torches Casino and Convention Center, the local grocery store, a campground, an electric motor manufacturing company, and a small wood-pallet manufacturer. A small number of Reservation residents are self-employed. The casino employs approximately 300 people and attracts business from as far away as Chicago, Illinois. According to tribal officials, the average hourly wage of Reservation residents is \$6.33 and the 1996 unemployment rate on the Reservation was 26%. The contacts indicated that there is a continued need on the Reservation for venture capital financing. They acknowledge that this is a financing area in which most conventional banks are not very actively involved.

According to community members familiar with Oneida and Vilas County economic development and housing issues contacted in connection with recent CRA evaluations of area banks, affordable housing is in short supply. These CRA contacts indicated that new home construction in Oneida County set an all-time record in 1996. However, a majority of the homes built are second "vacation" homes; only half are owner-occupied units. According to CRA contacts, new home construction costs have increased dramatically in the last several years. They indicated that one of the impediments they experience when trying to recruit new businesses to the area is the lack of available affordable housing. In addition, a tribal housing official contacted as part of a recent CRA evaluation of an area bank stated that housing on the Reservation also is in short supply. The tribal housing official pointed out that there are 340 tribal housing units on the Reservation; all are "mutual-help" units, which the occupants will eventually own. More than half the units are designated for low- and moderate-income Reservation residents. Currently, there is a lengthy waiting list for tribal housing.

According to the tribal housing CRA contact, the tribe is approved for the HUD Section 184 loan program and has been working with Minocqua and Woodruff banks to provide such loans to eligible borrowers. The HUD loan program provides fixed-rate loans of up to 30 years that afford homeownership to Native American individuals, tribes, and tribal housing authorities on tribal trust land or in an area where other home financing is unavailable for Native Americans. A few area banks offer and have made such loans, and the tribal housing official was hopeful that as more banks are certified to make such loans, residential real estate lending on the Reservation will increase, thus helping to alleviate the housing shortage. However, according to the contact, housing on the Reservation is in short supply. M&I Merchants Bank offers HUD Section 184 loans; however, it has not originated any since its membership date. According to bank management, no qualified applicants have applied for these types of loans.

The contact indicated that in March 1997, the tribal housing authority held a home fair in Lac du Flambeau. More than 300 tribal members participated along with all of the Minocqua and Woodruff banks, including senior officers of M&I Merchants Bank. The home fair provided home loan and building plan information to tribal members.

Based on the 1990 census, 80% of the assessment area's homes are one-unit structures. Dwellings consisting of two to four units accounted for 4% of the assessment area's housing units; dwellings consisting of five or more units accounted for 2% of the assessment area's housing units. Finally, mobile homes represented 11% of the assessment area's housing structures. As a percentage of housing units in

the assessment area, 41% are owner occupied, 12% are rental, and 47% are vacant. The high level of vacant housing units is indicative of a resort area with many vacation homes. Roughly 30% of the housing was built before 1950. Of the owner-occupied housing units in the assessment area, only 2% are in the low-income BNA and approximately 22% are in the moderate-income BNAs. According to bank management, elderly retirees comprise a sizable percentage of the bank's assessment area population. People 65 and older represent 19% of the assessment area's population. Many of the area's elderly people are part-time residents who travel south during the winter months.

Real property values in the assessment area are relatively high. According to the 1990 U.S. Census, the median value of the assessment area's housing was \$48,697. Comparing the 1990 median housing value to the assessment area's median family income shows that housing is relatively expensive in the assessment area, especially in Oneida and Vilas counties. The following table shows the median value of housing, the median household income, and affordability ratios for each of the three counties that comprise some portion of the bank's assessment area. The affordability ratio represents the amount of single-family owner-occupied housing that a dollar of income can purchase.

<b>1990 MEDIAN HOUSING VALUES</b>			
	<b>Median Housing Value</b>	<b>Median Household Income</b>	<b>Affordability Ratio</b>
Vilas County	\$58,922	\$20,354	34%
Oneida County	\$53,358	\$23,903	44%
Langlade County	\$37,417	\$20,706	55%

The many financial institutions that operate in the bank's assessment area create a very competitive market. Bank management identified the bank's primary competitors as the following financial institutions that operate main or branch offices in the assessment area: In Rhinelander, Associated Bank North, Wausau, Wisconsin; First Financial Bank, Stevens Point, Wisconsin; Northwoods State Bank, Elcho, Wisconsin; and Ripco Credit Union. In Woodruff-Minocqua, the bank identified its competition as Firststar Bank Wisconsin, First Financial Bank, and Park City Credit Union. In Antigo, the bank identified Bank One, Wisconsin, Milwaukee, Associated Bank North, and the Antigo Co-op Credit Union as competitors.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

The bank's CRA performance as evaluated based on the Lending, Investment, and Service tests is rated satisfactory.

### **Lending Test**

The bank's performance under the lending test is rated high satisfactory. Most of the analysis on the following pages is based on 207 residential real estate loans the bank originated during 1996 and January through September 1997 and 1,710 small business and 131 small farm loans originated during 1996 and between January and June 1997. The following criteria were analyzed to evaluate the bank's CRA lending performance: lending activity, credit extended inside the assessment area compared with credit extended outside the assessment area, geographic distribution of loans, loans to borrowers of different income levels and to businesses of different sizes, success at serving highly economically disadvantaged areas and low-income borrowers, community development lending, and flexible and innovative loan programs.

## Lending Activity

The bank is an active lender. As noted, the bank reported making 207 residential real estate, 1,710 small business, and 131 small farm loans during 1996 and the first three quarters of 1997. In addition, the bank's quarterly net loan-to-deposit ratio is very high. Since the bank's membership date, this value has fluctuated between 88% and 108%. The quarterly average of the bank's net loan-to-deposit ratio, based on the data for the eight calendar quarters since October 1, 1995, is 96%. The bank's loan portfolio has increased by 25% since the bank's entry into the System. The bank's deposits have fluctuated, but they have increased by 7% during the same period. Much of the increase is attributed to the bank's acquisition and merger of the branch offices.

The bank's general lending performance compares favorably with its peer group, according to data from the September 30, 1997, Uniform Bank Performance Report ("UBPR"). These data indicate that the bank's September 30, 1997, net loan-to-deposit ratio was 108%, which ranked it in the 98th percentile as compared with its peers.

The bank's loan data do not reflect loans sold to the secondary market since the last evaluation. The bank sells residential real estate loans to the secondary market. The net loan-to-deposit data also do not include unfunded loan commitments, which represent funds the bank has agreed to loan but has not yet extended. The September 30, 1997, ROC showed that the bank had approximately \$35.4 million, or 17% of its net loan portfolio, in unfunded loan commitments.

As discussed previously in the Description of Institution section, the bank identified the following financial institutions as competitors: in Rhinelander, Associated Bank North, Wausau, Wisconsin; First Financial Bank, Stevens Point, Wisconsin; Northwoods State Bank, Elcho, Wisconsin; and Ripco Credit Union. In Woodruff-Minocqua, the bank identified its competition as Firststar Bank Wisconsin, First Financial Bank, and Park City Credit Union. In Antigo, the bank identified Bank One, Wisconsin, Milwaukee, Associated Bank North, and the Antigo Co-op Credit Union as competitors. Several of the competitors' offices are branches of larger banks so direct comparisons are not available.

The following chart shows the quarterly average net loan-to-deposit ratios of the bank and those ratios available for the bank's competitors with offices concentrated in the bank's assessment area since October 1, 1995.

<b>BANK</b>	<b>TOTAL ASSETS (September 30, 1997) (In thousands)</b>	<b>QUARTERLY AVERAGE NET LOAN-TO- DEPOSIT RATIO</b>
M&I Merchants Bank Rhinelander, Wisconsin	\$243,025	96%
F & M Bank Lakeland Woodruff, Wisconsin	\$156,696	82%
Associated Bank North Wausau, Wisconsin	\$515,249	84%
Northwoods State Bank Elcho, Wisconsin	\$ 20,951	72%

The many financial institutions that operate in the bank's assessment area create a very competitive market. As the net loan-to-deposit data indicate, the demand for credit appears robust throughout the bank's assessment area. The bank's quarterly average net loan-to-deposit ratio is quite a bit higher than the ratios of other banks concentrated in the assessment area. In addition to banking competition, several nonbank entities extend credit to residents and businesses in the bank's assessment areas. Community members who are familiar with the economic characteristics of the bank's assessment area describe the area financial services environment as very competitive.

The bank is a leading lender in the assessment area among the institutions required to report lending data under CRA.<sup>2</sup> In 1996, the bank made 84% of the loans reported for small farms and 55% of the reported small business loans.

A review of the lending data (the bank's consistently strong loan-to-deposit ratio, comparison with its competitors, its UBPR peer group ranking, and the lack of identified credit needs in the assessment area), in conjunction with the bank's secondary market transactions and unfunded loan commitments, evidence the bank's readiness to extend credit. Consequently, the bank's overall lending performance reflects good responsiveness to the assessment area's credit needs.

### **Assessment Area Concentrations**

The bank's lending activity is heavily concentrated in the assessment area. Since membership date, the bank has extended a substantial majority of its loans to residents and businesses in its assessment area. The table below shows the percentage of residential real estate, small business, and small farm loans by total number and dollar amount originated within the assessment area.

<b>LOANS IN THE ASSESSMENT AREA</b>		
<b>LOAN TYPE</b>	<b>TOTAL NUMBER OF LOANS</b>	<b>TOTAL DOLLAR AMOUNT OF LOANS</b>
Residential Real Estate	90%	87%
Small Business	90%	89%
Small Farm	76%	77%

As the data show, the bank extends almost all of its residential real estate and commercial loans to assessment area residents and businesses. The data also show that the bank extends a majority of its small farm loans within the assessment area. However, the lower level of bank agricultural lending in the assessment area relative to the other types of credit the bank extends is mitigated because the bank is not an active agricultural lender. As indicated previously in the Description of Institution section, only 5% of the bank's loan portfolio is composed of agricultural loans. In northeastern Wisconsin, agriculture is not the dominant industry. According to bank management and community contacts, of the portions of the bank's assessment area, only Langlade County is agricultural in nature. Langlade County comprises the southeastern section of the bank's assessment area. An analysis of the bank's agricultural lending activity in the assessment area shows that 99% of the number and aggregate dollar amount of the small farm loans the bank originated during the CRA sample period were originated in Langlade County.

As noted, the data reflect a heavy concentration of lending in the assessment area. Accordingly, the bank's commitment to extend credit in the assessment area is very strong.

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<sup>2</sup>Only those institutions with total assets over \$250 million or subsidiaries of holding companies with total banking and thrift assets over \$1 billion report data.

## Geographic Distribution of Loans

The geographic distribution of the bank's loans throughout the assessment area reflects adequate penetration. As previously discussed, the bank's assessment area has one low-income BNA, seven moderate-income BNAs, and 19 middle-income BNAs. The assessment area does not have any areas classified as upper income. The bank lends in all of the BNAs within its assessment area. Real estate and small business lending is spread throughout the assessment area while agricultural lending is concentrated in Langlade County. No unexplained gaps in lending were noted.

The following table shows the distribution of the bank's residential real estate, small business, and small farm loans in the low-, moderate-, and middle-income areas of the bank's assessment area.

<b>DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BNA INCOME LEVEL*</b>						
Loan Type	Low-Income BNA		Moderate-Income BNA		Middle-Income BNA	
	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans
Residential Real Estate	2%	2%	16%	13%	83%	85%
Small Business	1%	2%	10%	12%	89%	85%
Small Farm	0%	0%	13%	15%	87%	85%
*The bank's assessment area does not include any upper-income BNAs.						

As the data show, the bank does not actively extend loans in the assessment area's low-income BNA. As shown in the above table, the bank originated 2% of the residential real estate and 1% of the small business loans in BNA 9509, the one low-income BNA located in the bank's assessment area. BNA 9509 encompasses the majority of the Reservation, which is located in southwestern Vilas County adjacent to Oneida and Iron counties. The tribal offices are located in Lac du Flambeau, which is also the site of the bank's limited-service facility in the tribal grocery store. This branch is essentially a paying and receiving station, although customers can and do submit loan applications. However, any loans originated from this office are booked and processed through the branch office in Woodruff.

This low-income BNA has a population of 1,840, representing approximately 3% of the assessment area's total population. Of the 622 households located in this BNA, 45% are classified as low income and 37% have incomes below the poverty level. Housing is in short supply in this BNA, only 4% of the housing units in the assessment area are located in this BNA. Approximately 2% of the assessment area's owner-occupied housing units are located in this BNA. In addition, BNA 9509's residents are not affluent. According to the 1990 U.S. Census data, the BNA's median family income is \$14,735, approximately 49% of the statewide nonmetropolitan median family income. The BNA's median household income is \$14,337. Households with these income levels typically do not qualify for types of credit other than small loans, which is one explanation for the low level of real estate and commercial loans and the lack of small farm loans. Also, the lack of housing stock inhibits the bank's ability to boost the level of its real estate lending in any meaningful way. The bank offers HUD Section 184 real estate loans in an effort to make real estate loans on the Reservation, but has not made any such loans since it became certified, citing the lack of qualified applicants as the reason. Also, many Reservation residents reportedly bank in nearby Woodruff and Minocqua. Given the demographic and economic characteristics of this BNA, the lack of available, affordable housing, and the existence of competitor banks operating in Minocqua and Woodruff, it is not unreasonable that the bank has extended few loans in the assessment area's low-income BNA.

The table also shows that the bank is more active in originating loans to persons or businesses in the bank's seven moderate-income BNAs. According to data in the table, the bank originated 16% of the residential real estate, 10% of the small business, and 13% of the small farm loans in the sample in the moderate-income BNAs in its assessment area. The seven moderate-income BNAs are scattered throughout the assessment area; however, they consist primarily of areas that are sparsely populated and/or heavily forested. Their combined population represents 21% of the assessment area's population. Likewise, 21% of the assessment area's families reside in these areas. The moderate-income BNAs in the assessment area are relatively unaffluent. According to the 1990 U.S. Census data, the median family income is \$22,490, approximately 75% of the statewide nonmetropolitan median family income. The moderate-income BNA's median household income is \$18,441. People in these households also may not qualify for many types of credit.

Two of the moderate-income BNAs, 9510 and 9512, are located in Vilas County. According to bank management, much of Vilas County is in the Eagle River, Wisconsin, school district. Because many of the social and commercial activities in the area are tied to the school districts in which residents with children are located, it is management's contention that many of these moderate-income BNA residents bank with competitors in Eagle River or with an affiliated bank, M&I Bank of Eagle River, which is headquartered in Eagle River. This affiliate has a branch office in St. Germain, which is located adjacent to BNA 9512. Also, a sizable percentage of Vilas County's population is elderly retirees; according to census data, people age 65 and older represent 23% of Vilas County's population. The credit demand for senior citizens is usually not as great as for other groups of people, so it is not unreasonable to expect that lending activity in this section of the bank's assessment area would be lower than other areas.

Likewise, another moderate-income BNA in the bank's assessment area, 9710 (Oneida County), is sparsely populated and has limited loan demand. According to bank management, this BNA is rather large and has been split into three school districts. As is the case with the Vilas County moderate-income BNAs described above, since many of the social and commercial activities in the area are tied to the school districts in which residents with children are located, management also contends that many of BNA 9710's residents bank in Tomahawk and Merrill.

Another issue that affects the bank's lending activity in these BNAs is affordable housing availability. As mentioned, according to individuals familiar with Oneida and Vilas counties' economic development and housing issues, affordable housing of both rental and owner-occupied units is in short supply. According to 1990 U.S. Census data, 26% of the housing units in the assessment area were located in the moderate-income BNAs. Only 22% of the assessment area's owner-occupied housing units are located in the moderate-income BNAs. Although new home construction has set records in past years, many of the homes built are second, vacation-type homes, not owner-occupied units. Developers have focused on building these types of homes and because of the demand, new home construction costs have increased dramatically in the last several years. Contacts also indicated that one of the impediments they experience when trying to recruit new businesses to the area is the lack of available housing, particularly affordable housing.

The other four moderate-income BNAs in the assessment area, 9601, 9602, 9605, and 9606, are located in Langlade County in the southeastern section of the assessment area. Their combined population accounts for 72% of the population of the moderate-income BNAs in the assessment area. The bank's Antigo office is located in BNA 9606. Analysis of the bank's lending activity in these four BNAs shows that of all loans made in the assessment area, 7% of the residential real estate, 7% of the small business, and 12% of the small farm loans were in these BNAs. The majority of this lending activity is in BNA 9606, which is expected given the location of the Antigo branch office.

This analysis also takes into account the fact that the bank's real estate loan data do not completely reflect all of the bank's residential real estate lending. According to bank management, the bank has been processing its refinanced mortgages as home equity lines of credit because of the significant cost savings to the borrowers. Home equity lines of credit were not included in the data for this evaluation. The bank reported residential real estate loans following the guidelines under the Home Mortgage Disclosure Act which does not require that home equity lines of credit be reported.

Given the demographic and economic characteristics of the seven moderate-income BNAs scattered throughout the bank's assessment area, the availability of housing stock, and the competitor banks operating in Minocqua, Woodruff, Eagle River, Merrill, Tomahawk, and Antigo, the bank's lending level in the assessment area's moderate-income BNAs does not seem unreasonable.

According to the table, the bank originated 83% of the residential real estate, 89% of the small business, and 87% of the small farm loans in the sample in the middle-income BNAs in the assessment area. Approximately 76% of the assessment area population resides in middle-income BNAs. A review of the bank's lending activity in these middle-income BNAs shows that the residential real estate and small business loans are reasonably distributed through the middle-income BNAs. However, the review did identify a gap in the penetration of small farm loans in the bank's assessment area. With the exception of Oneida County BNA 9710, one of the seven moderate-income BNAs in the assessment area, the bank did not originate any small farm loans in any of the middle-income BNAs located in Oneida or Vilas counties. Approximately 87% of the small farm loans were originated in middle-income Langlade County BNAs, and 12% of the loans were made in the moderate-income BNAs in Langlade County. This loan origination gap is explainable, however. As discussed previously, Langlade County is the only section of the bank's assessment area that is oriented toward agriculture. In addition, the bank's Antigo branch was previously a separate bank that was primarily an agricultural lender. Accordingly, the concentration of small farm loans in a few of the middle-income BNAs in the bank's assessment area is not unreasonable.

Based on the preceding discussion of the demographic and economic characteristics of the assessment area, the availability of affordable housing stock, and the lack of unexplained gaps in lending, the distribution of the bank's loans among geographies of different income levels is adequate.

### **Borrowers' Profiles**

The bank's lending reflects adequate penetration among customers of different income levels and business customers of different sizes. As previously discussed, the CRA classifies income levels into four categories: low, moderate, middle, and upper. According to the 1990 U.S. Census data, the median family income for the assessment area is \$26,382. For purposes of classifying the bank's consumer borrowers, the 1997 Wisconsin nonmetropolitan median family income of \$39,600 is compared with borrowers' incomes.

The table below shows the percentage of residential real estate loans made to borrowers of different income levels.



<b>DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWERS' INCOME LEVELS*</b>								
<b>Loan Type</b>	<b>Low-Income Borrowers</b>		<b>Moderate-Income Borrowers</b>		<b>Middle-Income Borrowers</b>		<b>Upper-Income Borrowers</b>	
	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans
Residential Real Estate	2%	1%	13%	9%	36%	31%	49%	59%
*Income level is determined based on the 1997 Wisconsin nonmetropolitan median family income of \$39,600.								

The residential real estate data show that the bank's lending to low- and moderate-income persons is 15% of the total number and 10% of the total amount of residential real estate loans originated during the sample period. According to U.S. census data, low- and moderate-income families and households represent 45% and 46% of the assessment area's population, respectively. More specifically, the assessment area's population is composed of 23% low-income families and 27% low-income households. As previously noted, 10% of the families and 12% of the households residing in the assessment area had a 1989 income that was below the poverty level.

Based on the demographic data, it appears that the level of the bank's residential real estate loan originations to low- and moderate-income persons is low. However, the evaluation revealed a number of factors that influence the bank's ability to extend residential real estate loans to persons with low or moderate incomes. First, real property values in the assessment area are relatively high. According to the 1990 U.S. Census, the median value of the assessment area's housing was \$48,697. Comparing the 1990 median housing value to the assessment area's median family income shows that housing is relatively expensive in the assessment area, especially in Oneida and Vilas counties. Bank management and community contacts stated that housing prices have increased significantly since 1990. In addition, comparing the 1990 median housing value to the assessment area's median family income shows that housing is relatively unaffordable in the assessment area.

Second, the assessment area's residential construction market is concentrated in upper-end homes. According to bank management and community contacts, the assessment area's population of wealthy residents who are either vacationers or retirees has increased in recent years. These people demand more expensive homes, and builders are devoting resources to that particular sector of the housing market. In addition, in the Rhinelander area, the growth in the numbers of workers has put a strain on the supply of available housing. The scarcity of affordable housing also serves to restrict the bank's real estate lending activity to low- and moderate-income families and households.

Third, while housing costs are relatively high, rents in the assessment area are relatively low. The median rent is \$310. Few homes can be purchased for payments below this rent cost. The low rents relative to mortgage, tax, insurance, and maintenance costs could limit the incentive for low- and moderate-income people to purchase homes.

Finally, as previously indicated, the banking competition in the assessment area is active; several bank and nonbank financial institutions serve the credit needs of residents, businesses, and farms in the area. Given these factors and the fact that the evaluation did not reveal nor did community contacts indicate any unmet real estate credit needs, the bank's level of real estate lending to low- and moderate income borrowers in the assessment area appears adequate.

To service the residential real estate credit needs of low- and moderate-income borrowers, the bank participates in the HUD Section 184 and WHEDA HOME loan programs. As mentioned, the HUD Section 184 Loan Program provides affordable fixed-rate housing loans secured by tribal trust land to Native Americans. The WHEDA HOME loan program is a low-interest, fixed-rate mortgage loan program designed primarily for first-time homebuyers, except in targeted areas, such as Vilas County BNA 9509 where the Reservation is located. The purchaser need not be a first-time homebuyer to qualify for this program if located in a targeted area. Borrowers under the WHEDA HOME loan program must have a 3% to 5% down payment. Since the bank's membership date, it has originated one WHEDA HOME loan.

The bank has also been active in the Antigo Homestead Opportunity Community Development Block Grant Loan Program. Since membership date, the bank has made 12 such loans totaling over \$339,000. Under this program, which is targeted to low- and moderate-income renters who seek to become homeowners, borrowers who qualify may obtain up to \$3,500 to be used for 75% of the down payment plus closing costs and an additional \$8,500 that can be used to fund improvements and repairs to properties.

As mentioned in the Description of Institution section, the bank is an active commercial lender; approximately 47% of its loan portfolio is commercial loans. In 1996, the bank was cited by the SBA as one of the leading lenders to small businesses in Wisconsin. CRA defines small business loans as a loan of \$1 million or less, and it defines small farm loans as loans of \$500,000 or less. CRA requires that examiners review the bank's level of small business and small farm loans to entities with gross annual revenues of \$1 million or less. A review of the bank's reported small business and small farm loans shows that a substantial majority of the bank's loans were made to small businesses and small farms. By number of loans, 91% of the small business loans and 99% of the small farm loans were made to businesses and farms with revenues under \$1 million. While the concentration was similar for small farm loans by dollar amount, 74% of the small business loans were to small businesses. The following table illustrates the distribution of small business and small farm loans by loan size.

<b>DISTRIBUTION OF SMALL BUSINESS LOANS BY LOAN AMOUNT</b>			
	Loan Amount \$100,000 or less	Loan Amount \$100,000.01 to \$250,000	Loan Amount \$250,000.01 to \$1,000,000
Small Business Loans	87%	9%	4%
Small Farm Loans	80%	14%	5%

The high level of loan originations to small businesses and farms is expected because almost all commercial entities in the bank's assessment area are classified as small businesses or farms. The bank has also made small business start-up loans since its membership date.

The bank's lending performance to small businesses and farms is strong and generally reflects the concentration of such entities in the assessment area. Although the amount and number of residential real estate loans extended to low- and moderate-income people are lower than demographics, they are adequate given the economic and demographic characteristics of the assessment area, affordable housing availability, the strong competition, and the lack of identified unmet needs. In addition, as noted under the Geographic Distribution of Loans section, the bank's real estate loan data do not completely reflect the entire bank's residential real estate lending. The bank processes its refinanced mortgages as home equity lines of credit because of the significant cost savings to the borrowers. Home equity lines of credit were not included in the data for this evaluation. For these reasons, the bank's lending to borrowers of different income levels and businesses of various sizes is adequate.

## **Record of Serving Highly Economically Disadvantaged Areas, Low-Income People, and Small Businesses**

The bank's record of serving low-income people and small businesses is good. There is one low-income and seven moderate-income BNAs in the bank's assessment area. Although the bank's lending to low-income people in the assessment area is low, it is adequate and the result of several external factors. As noted, the low-income BNA represents 3.2% of the assessment area's population and seven moderate-income BNAs represent 21% of the assessment area's population. These areas are not affluent. According to census data, the median family income for the low-income BNA is \$14,735 and the median family incomes are between \$19,728 and \$24,206 in the moderate-income BNAs. Real estate property values in the assessment area are relatively high, and housing is expensive and unaffordable for low-income people, especially in the Oneida and Vilas counties sections of the assessment area. Community contacts and bank management indicate that the residential construction market is concentrated in upper-end homes. In addition, in the Rhinelander area, the growth in numbers of workers has put a strain on the supply of available housing. Also, affordable housing is an issue on the Reservation. The scarcity of affordable housing restricts real estate lending activity. These factors serve to limit real estate lending activity to low-income people. In addition, individuals of low-income households typically do not qualify for types of credit other than small loans, which also explains the bank's low level of lending to low-income people.

The bank offers a number of programs designed to assist low-income borrowers. To service the residential real estate credit needs of low- and moderate-income borrowers, the bank participates in the HUD Section 184 and WHEDA HOME loan programs and community development block grant loans through Antigo and Rhinelander.

The bank has an excellent record of serving small businesses throughout its assessment area. The bank is an aggressive small business lender, and it participates in a number of programs to improve small businesses' access to credit. Nearly all of the bank's farm and commercial loans in the assessment area are to small businesses. Based on the adequate level of lending to low-income people and the excellent level of lending to small businesses, the bank's overall performance in this category is good.

## **Community Development Lending Activities**

The CRA loan data provided by the bank did not reflect any community development loans as having been originated in 1996 or as of the evaluation date in 1997. Since its membership date, the bank has made a number of loans that serve community development purposes. However, such loans are generally classified as small business loans pursuant to CRA's definitions.

According to community contacts and bank management, there have been few opportunities for the bank to finance community development projects in the assessment area since its last evaluation. Although affordable housing is an identified need in the assessment area, contacts did not identify any current projects that had difficulty getting adequate funding.

## **Product Innovation and Flexibility**

The bank has flexible lending standards and participates in special loan programs on a bankwide basis to facilitate loan originations in its assessment area. The bank is affiliated with 29 financial institutions in Wisconsin. The bank and its Wisconsin affiliates offer many of the same loan programs, which are detailed below. While these programs generally offer flexible underwriting criteria, many are government-sponsored programs and not considered innovative.

One method the bank employs to increase access to home mortgage loans is offering conventional loans secured with private mortgage insurance ("PMI"). With PMI, borrowers having limited funds for a down payment can qualify for a conventional real estate loan. This product is important in areas where Federal Housing Administration loans are not available.

The bank also offers the MI Master Line, which is a home equity line of credit that the borrower can convert to as many as four fixed-rate, term loans. As the term loans are repaid, the borrowers can access the funds through the line of credit.

In addition, the bank began offering the Neighborhood Home Loan Program ("NHLP"), a low down payment residential real estate loan program, in 1997. Qualified applicants can purchase a home with a minimum 3% down payment and with no PMI. However, as of the evaluation date, the bank had not originated any NHLP loans.

The bank also participates in several government-sponsored loan programs that do not qualify as community development loans, but do satisfy special credit needs of residents in the assessment area. The following chart portrays the bank's involvement in these loan programs between 1995 and 1997 as of the evaluation date.

<b>PARTICIPATION IN GOVERNMENT-SPONSORED LOAN PROGRAMS</b>		
	<b>Number of Loans</b>	<b>Amount of Loans (In thousands)</b>
WHEDA-HOME Loan	1	\$ 34
VA	1	\$ 88
WHEDA-CROP Loans	7	\$ 87
SBA	18	\$4,170
WHEDA-Commercial	2	\$ 103
Farm Service Agency ("FSA")	9	\$1,348
PECFA	51	\$6,835

The bank extends PECFA loans, which finance environmental cleanup projects throughout the bank's assessment area.

The bank participates in several government-sponsored, small business loan programs. It originates loans pursuant to SBA and WHEDA programs. In addition to originating SBA loans, the bank offers WBDFO loans; WBDFO is a certified development company. As such, WBDFO uses special SBA loan programs to provide small businesses with long-term, fixed-rate financing.

The bank offers WHEDA's LiDL program, a reduced interest rate loan fund for small businesses owned and controlled by women or minority group members. Its purpose is to encourage women- and minority-owned and -controlled businesses to start up or expand operations. For qualified applicants, WHEDA deposits an amount equal to the loan principal with the lender. WHEDA agrees to accept a below-market return on its deposit with the lender, who agrees to charge the borrower a below-market interest rate on the loan.

The bank also offers the TFP-TAP loans, TFP loans fund the development and expansion of existing tourism-related businesses. For qualified applicants, WHEDA will guarantee up to 90% of the loan and reduce the interest obligation of the borrower by providing an annual interest subsidy to the creditor. To qualify for a TFP loan, the borrower and its affiliates (defined as parent, subsidiaries, and other affiliates) must have combined gross annual sales of \$2.5 million or less. The TAP program assists businesses

located in economically distressed areas or relocating into such areas. It provides loan guarantees of up to 90% for loans to purchase or improve real property, buildings, equipment, machinery and inventory. Since the bank's membership date, it has made a few TFP loans to businesses in its assessment area.

For agricultural loan customers, the bank offers FSA-guaranteed and WHEDA-CROP loans. The purpose of the WHEDA loan program is to provide agricultural production loans to farmers who may have exhausted traditional sources of credit to purchase fertilizer, seed, or any other service or consumable good necessary to produce an agricultural commodity. Since the bank's membership date, it has made a few WHEDA-CROP loans to agricultural customers in its assessment area.

## **Conclusion**

The bank's performance as evaluated under the Lending Test is rated high satisfactory. This rating is based on the bank's good responsiveness to credit needs and the substantial concentration of loans in the assessment area. Also, the loan data show that the bank is willing to extend loans throughout its assessment area, including in low- and moderate-income areas, as well as to persons of different income levels and businesses of various sizes. Accordingly, the distribution of loans to geographies and people of different income levels and to businesses of different sizes is adequate. The bank has a good record of serving low-income people and small businesses, but it has not extended any qualified community development loans that were not reported as small business or small farm loans for CRA. Finally, the bank offers a wide variety of loan products with flexible underwriting criteria and some innovative products designed to meet the credit needs of low- and moderate-income borrowers and small businesses.

## **Investment Test**

The bank's level of qualified community development investments is good and is rated high satisfactory. This rating is based on the bank's qualified investment activity in light of the limited opportunities for the bank to invest in qualified investments in its assessment area.

## **Investment and Grant Activity**

As discussed, the assessment area is in northeastern Wisconsin. It is primarily rural and has few communities of any size. There are few opportunities in the assessment area for the bank to acquire qualified investments as defined by CRA. Contacts did not identify any additional investment opportunities in the assessment area.

A review of the bank's investment portfolio shows that the bank owns several securities issued by government units in the assessment area, although none are particularly complex or innovative. Two of the securities the bank owns are housing revenue bonds issued by an area housing authority for the purpose of remodeling a low-income, multifamily housing project in the assessment area. These bonds were purchased since the last CRA evaluation. They totaled \$400,000 when purchased and represent approximately 23% of all municipal securities and 41% of municipal revenue securities the bank holds in its portfolio.

The bank also donates to organizations that provide community development services in the assessment area. The bank's qualified grant activities in the assessment area since membership date consist of donations to the following:

- \$625 per quarter to a nonprofit foundation for developmentally disabled low- and moderate-income people;
- \$50 to a nonprofit organization for the victims of domestic violence and sexual assaults;

- \$1,000 annually to a statewide economic development marketing corporation that focuses on recruiting new businesses and job opportunities to sections of the state with higher-than-average unemployment rates;
- \$168 to an area county economic development committee to help defray the cost of an economic development consultant; and
- \$50 to a nonprofit organization to fund a pilot program to provide public transportation in Oneida and Vilas counties to low- and moderate-income people with disabilities.

Through its investments, grants, and contributions, the bank shows its responsiveness to the credit and community development needs of the residents of its assessment area. Since few qualified community development investments have been available in the bank's assessment area, it relies on grants and contributions to provide nonlending-related funding to local projects. However, many of the bank's investments and donations are not considered qualified donations, as defined by CRA. The following chart shows the percentage of the bank's total donations that are qualified donations on an annual basis since the bank's membership date.

<b>Qualified Grant Activity as a Percentage of Total Donations</b>			
	<b>1995</b>	<b>1996</b>	<b>1997</b>
Total Qualified Donations	\$2,468	\$2,300	\$1,250
Percentage of Total Donations	31%	16%	14%

The chart shows that the bank continues to make qualified donations, however, they have decreased on an annual basis since its membership date and do not constitute a significant percentage of its annual total donations. Bank management contends that this is a function of availability rather than of intention. Community contacts indicated the bank is active in economic development activities and initiatives in the assessment area. They did not identify any additional initiatives in which the bank could become involved.

Given these factors, the bank's responsiveness to the credit and community development needs in the assessment area appears good and its level of community investments in the assessment area is significant, considering the environment and market in which the bank operates. Accordingly, the bank is rated high satisfactory for the Investment Test.

### **Service Test**

The bank's rating under the Service Test is high satisfactory. As of the evaluation date, the bank operated three full-service offices, five ATMs, and one limited-service facility that collectively serve three northeastern Wisconsin counties. One of the full-service offices is located in a moderate-income BNA, and the limited-service facility is located in a low-income BNA. Four of the ATMs are cash-dispensing only. The bank also provides access to its services through a variety of alternative delivery systems. In addition, bank directors, officers, and staff provide a wide variety of qualified community development services in the assessment area.

### **Retail Banking Services, Changes in Branch Locations, Business Hours, and Appropriateness of Services**

As is the case at other affiliate banks, the bank operates an extensive product delivery system to provide access to its various services and products to residents and businesses of the assessment area. These

services are accessible to residents of geographies of different income levels and to borrowers with varying incomes. The bank is affiliated with 29 financial institutions in Wisconsin. The bank and its Wisconsin affiliates operate an interbank system that permits customers to make deposits, cash checks, and make loan payments through any affiliate in the state.

As of the evaluation date, the bank had not acquired or closed any offices since its membership date. As previously mentioned, at the time the bank joined the System, it operated six offices: the main office and a branch office in Rhinelander and branch offices in Antigo, Woodruff, Lake Tomahawk, and Lac du Flambeau. However, pursuant to the approval of an acquisition application described in the Description of Institution section, the Corporation committed to divest of three branches in the Rhinelander banking market. In that regard, in September 1997, the bank sold the Lake Tomahawk and Rhinelander branch offices. Reportedly, these branches remained open under their new ownership. Consequently, the sale did not adversely affect the accessibility of banking services.

To accommodate the needs of the residents and businesses throughout its assessment area, the bank has established office hours (including Saturday drive-up hours) that are reasonable for the respective branch locations. Hours and services do not vary in a way that inconveniences low- and moderate-income geographies and people.

As of the evaluation date, the bank operated one full-service ATM and four cash-dispensing ATMs. The bank offers the M&I Bank Card, an ATM access and debit card, to its customers. The bank's debit cards are on the VISA and TYME systems, which provide customers access to their deposit accounts nationwide.

The bank also offers low-cost checking and savings products and check-cashing services. Its personal checking and savings products include M&I Basic Checking, which has a low minimum daily balance requirement of \$50 and a no-cost savings account for school-aged children. In addition to these low-cost accounts, the bank offers a variety of interest-bearing checking, money market, savings, and certificate of deposit accounts for individuals. As at its other branch offices, the bank's business accounts include a no-service charge, no-minimum balance checking account for nonprofit organizations. The bank does not impose a fee for cashing government checks for nonbank customers.

The bank offers Mi Line to increase its customers' access to deposit account information. Mi Line is an automated voice-response system that allows customers to access deposit and credit account information 24 hours a day. Information accessible through Mi Line includes deposit and loan balances, current interest rates, and checks cleared since the last statement. Mi Line also permits customers to transfer funds between M&I checking, checking with interest, savings, and money market accounts.

The bank has established the M&I Direct Telephone Bill Pay, a service that allows customers to pay bills via telephone 24 hours a day, seven days a week. Bank customers can also do their banking on line by using the M&I Direct PC Banking system. By using this service, customers have access to interest rate information and can issue payments and transfer money between accounts, reconcile accounts, and review transaction activity. The bank collects a monthly fee for these services.

### **Community Development Services**

Community contacts indicate that the bank is very supportive of activities that promote the economic and social health of the villages and communities in the assessment area. However, many of these activities do not qualify as community development services. The bank's officers and staff perform an adequate level of qualified community development services in the assessment area, much of which relates to supporting the economic development of the assessment area by attracting businesses to the area.

These services are detailed below.

- The bank's president and director is actively involved with the Oneida County Economic Development Corporation. He is a board member and will serve as president in the near future.
- A bank vice president, the Woodruff Branch manager, is a director and financial advisor for the Habitat for Humanity-Northwoods Foundation.
- A senior vice president and an assistant vice president have been active in the administration of the Rhinelander Community Development Block Grant Program. This program aids qualified applicants in obtaining or rehabilitating affordable housing.
- A bank director is a board member of the Antigo Area Industrial Corporation.
- A bank senior vice president, the Antigo manager, is active in the administration of the Antigo Housing Authority Block Grant Program. This program also aids qualified applicants in obtaining or rehabilitating affordable housing.

The bank supports programs to educate residents and businesspersons about home mortgage loan programs. For example, bank representatives have attended and participated in a Native American lending workshop sponsored by Fannie Mae for the purpose of exchanging information about the home mortgage application process and Fannie Mae and HUD loan programs designed for prospective Native American borrowers. The products are generally directed to low- and moderate-income people. Bank representatives have also participated in a home improvement loan seminar with area lenders and have also met with area realtors to disseminate information about the mortgage loan products that it offers.

The bank's participation in qualified community development services, as defined by CRA, is limited because of few opportunities for qualified community development activities in the assessment area. To be qualified, activities and projects must be targeted to low- and moderate-income people and geographies and services must be financial in nature. Based on information from community contacts and bank management, however, it appears that the bank participates in available community development projects as well as many other projects which support economic and social development projects in the assessment area. Consequently, the bank's participation in community development services as defined by CRA is adequate.

## **Conclusion**

The bank's branch locations, ATM locations, and alternative delivery systems are accessible to all sections of the bank's assessment area. The bank operates offices in low- and moderate-income BNAs in the assessment area. Because its branch locations, business hours, deposit products, and alternative delivery systems provide services to low- and moderate-income people and geographies, the bank's retail banking services are rated high satisfactory. The bank's adequate level of community development services is considered low satisfactory. Given the lack of identified unmet needs, the level of community development services does not significantly detract from the overall Service Test rating.

## **COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS**

The evaluation did not reveal any credit practices that violate any provisions of the fair lending and housing laws and regulations.



GENERAL

The bank has not received any CRA-related complaints since its membership date.

## APPENDIX A

<b>Scope of Examination</b>  As of the evaluation date, the bank operated three full-service offices, five automated teller machines, and one limited-service facility in three north-central Wisconsin counties. Based on the location of its offices and its lending territories, the bank has defined one nonmetropolitan assessment area for purposes of CRA. This CRA evaluation is based on a review of all of the bank's activities in the assessment area.  We conducted on-site evaluations at the following offices: <ul style="list-style-type: none"> <li>• the bank's main office in Rhinelander,</li> <li>• the bank's branch office in Antigo,</li> <li>• the bank's branch office in Woodruff.</li> </ul>			
<b>Time Period Reviewed</b>		We reviewed the bank's CRA performance based on its activities since October 1, 1995, the bank's membership date. The small business and small farm loan data reflected in the report is based on 1996 and January through June 1997 loan originations. The residential real estate loan data reflected in the report is based on 1996 and January through September 1997 loan originations.	
<b>Financial Institution</b>  M&I Merchants Bank Rhinelander, Wisconsin			<b>Products Reviewed</b>  As part of this CRA evaluation, the following loans were reviewed: small business, small farm, and home purchase and refinance residential real estate loans.
<b>Affiliate(s)</b> Not applicable			
<b>List of Assessment Areas and Type of Examination</b>			
<b>Assessment Area</b>	<b>Type of Examination</b>	<b>Branches Visited</b>	<b>Other Information</b>
Based on the location of its offices and its lending territories, the bank has defined one nonmetropolitan assessment area for purposes of CRA.  MSA Assessment Areas Not applicable  Non-MSA Assessment Areas	On-site	During this evaluation, examiners visited the main office in Rhinelander and branch offices in Antigo and Woodruff.	Not applicable

## **PUBLIC DISCLOSURE**

December 1, 1997

Date of Evaluation

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

M&I Merchants Bank

Name of Depository Institution

095542600000

Identification Number of Institution

Rhineland, Wisconsin

Address of Institution

Federal Reserve Bank of Minneapolis  
90 Hennepin Avenue  
P. O. Box 291  
Minneapolis, MN 55490-0291

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.